

Massachusetts State Lottery Commission

60 Columbian Street

Braintree, Massachusetts 02184-1738

Tel: 781-849-5555

Fax: 781-849-5547

TTY: 781-849-5678

STEVEN GROSSMAN

Treasurer and Receiver General

PAUL STERNBURG

Executive Director

DATE: September 25, 2012

TIME: 10:00 a.m.

PLACE: Office of the Treasurer and Receiver General
12th Floor
One Ashburton Place
Boston, MA

MEMBERS PRESENT: Steven Grossman, Treasurer and Receiver General, Chair
Martin Benison, Commissioner
Jane Gabriel, Acting General Counsel and designees for
Commissioner Mary Beth Heffernan
Beth Boland, Commissioner
Tim McMahon, Commissioner

ALSO PRESENT: Paul Sternburg, Executive Director, Lottery
William Egan, General Counsel, Lottery
Beth Bresnahan, Assistant Executive Director of Marketing
and Communications, Lottery
Jean Caron, Executive Assistant, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
Dave Sweeney, Chief Financial Officer, Lottery
Owen Doherty, Online Product Marketing Manager
Jon Carlisle, Director of Communications
Jamey Tesler, General Counsel, Treasury
Sue Perez, Executive Director, Massachusetts
Andy Metzger, State House News

Mike McCormack
Robert Frasca

1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:40 a.m.

2.0 Acceptance of the Minutes of the Meeting of August 24, 2012

Treasurer Grossman asked the Commission to accept the minutes of the August 24, 2012 meeting. Counselor Boland made a motion to accept the minutes of the meeting and Commissioner Benison seconded the motion explaining that he was not in attendance for the meeting but had consulted with his General Counsel Jenny Hedderman who was his designee. The minutes were approved 5-0 at 10:42 a.m.

3.0 EXECUTIVE DIRECTOR REPORT

Overall sales for August 2012 were \$17 million higher than August 2011. However, the prize payout percentage for the first two months of the fiscal year was 74.1% compared to 71.6% in FY12. Treasurer Grossman reminded the Commissioners that the historical prize payout figure is 72.3%. The \$10 million winner was presented to the Lottery yesterday kept the ticket for three months before filing a claim. As of September 20, 2012, sales were up \$44 million.

The August sales increase was attributed to a \$9 million spike in Instant Ticket sales with the release of four new games. There was also a \$7 million increase in Powerball sales due to this August's \$325 million jackpot which was much larger than last year; a \$2 million increase in KENO sales over last year and \$4 million in new sales brought in by Lucky for Life which debuted in March, 2012.

Four games experienced sales decreases in August. Mega Millions sales were down \$1 million due to smaller jackpots than last year. The Numbers Game had a \$1 million decrease due to cannibalization from Mass Cash's expansion to a nightly schedule. Megabucks Doubler suffered a \$1 million decrease due to a smaller jackpot this year, and Cash Winfall sales were down \$1 million since the game ended on January 23, 2012.

A chart depicting the Historic Prize Payout Percentages was presented. Treasurer Grossman said that the profit figure for FY12 was \$981 million and is estimated at \$927 million for FY13. CFO Dave Sweeney said it was too early to make any adjustments for FY13.

Director Sternburg then introduced Owen Doherty to inform the Commission on the 50/50 Raffle being released on Sunday, October 1st. Owen showed various Point of Sales items that would be used. The raffle tickets cost \$10 per ticket and the jackpot will be updated daily on masslottery.com as well as a message sent to the agents via their terminal every day. Ticket sales will end on December 31, 2012 at 11:59 p.m. The drawing will take place on New Year's Day with just one ticket being randomly selected. The winning raffle ticket number will be posted on masslottery.com at 6:00 p.m. There will also be a very simple Wild Raffle Wednesdays starting November 7 and continuing to December 26th in which 5 lucky ticket numbers will be posted on masslottery.com and communicated to all agents through their terminal. Wild Raffle Wednesday winners are still eligible to win the grand prize on New Year's Day. Director Sternburg said the research performed by Social Sphere was very helpful in deciding the best course for another raffle. The Point of Sale was also printed in house which was a great savings and good quality. Owen also mentioned that the Lucky for Life Promotion is doing well.

The 2012 Boston Celtics (\$2) Instant Ticket will be released on October 2, 2012. This is the Lottery's 4th instant ticket with the Celtics. Since 2006, the Lottery's Celtics tickets have generated a combined total of \$146 million in sales and have produced approximately \$24.5 million in net profit. There are also over \$19 million in immediate cash prizes, including 15 top prizes of \$50,000 and 491,640 prizes ranging from \$10 to \$10,000. Beth Bresnahan is launching

a Twitter “scavenger hunt” at 5 locations throughout the state where a winner will receive five 2012 Instant tickets and four tickets to a Celtics game.

There is also a 2nd chance drawing with the new \$2 game in which players can enter their non-winning tickets for a chance to win unique game-night experiences, team branded gear, commemorative “banner year” collectables signed by legends on the team for that year and more money (up to \$50,000 cash) in a contest held on the famed parquet floor court during a Celtics’ home game.

Director Sternburg explained to the Commissioners about the “Heroes Among Us” program, co-sponsored with Boston Celtics and the Lottery. It is a program that recognizes a citizen for an accomplishment or heroic act benefiting the community. Treasurer Grossman asks that a copy of the Yearbook be sent to each of the Commissioners.

The Lottery released the following instant tickets on September 18, 2012: Money Roll (\$2), Spooky Loot (\$5), Silver, Platinum, Gold 7’s (\$5) which has outperformed the sales of the \$20 ticket for the first time and \$10,000 A Week for Life (\$20).

The 2012 New England Patriots Instant Ticket released on September 4th has sold \$4,132,317 in 20 days. Director Sternburg said that when the Patriots start winning, sales will increase. Over 4,500 fans entered The New England Patriot’s Instant Ticket Launch Contest with 125 fans and their guest winning tickets to attend the Launch Event at Gillette Stadium on August 27th. The Lottery’s original 95 agents were also invited to attend the event which featured a closed Patriots team practice. At the Launch Event, the 125 winners were entered into a drum drawing in which one (1) entry won an Away Game Trip Package for two to watch the Patriots play in Miami, Florida on December 2nd against the Dolphins and \$500 in cash. Laurie Sparks of Roslindale, MA was the lucky winner of the trip package valued at \$15,000.

The bid for the second monitor game to replace The Race Game is almost finalized and should be awarded within the next 45 days. We will then begin the testing and will keep you updated on the progress. Lucky for Life sales are improving steadily now that the game is catching on thanks in part to the recent promotion. In a two week long promotion, players who wager \$6 or more on a single Lucky for Life ticket will receive a “Bonus Ticket” into a drawing to win \$1,000. In Massachusetts, a total of fourteen (14) prizes in the promotion will be awarded and the numbers will be posted on masslottery.com on October 2nd. Lucky for Life sales for the first full week of the promotion were \$917,078; which is 12% higher than the average sales for the first two weeks of September, or a \$99,539 increase.

4.0 LOTTERY REFORM SCORECARD

Procurement: The Office of the Comptroller recently named the Lottery to the Prompt Pay Honor Roll for its success in capturing one of the top 10 largest discounts among state agencies for the second year in a row.

Operations: We are working on a manual for sales agents to clarify responsibilities and expectations. Director Sternburg has added a member of the Asset Protection Department in reviewing and revising departmental policies and procedures. We are currently in the process of revising and developing the Compliance Department’s policies and procedures. Director Sternburg said that this will be done department by department to unify policies and procedures.

5.0 Votes presented to the Commission (11:11)

- 5.1 For the reasons set forth in the attached memorandum dated September 12, 2012, the Executive Director is authorized to enter into contracts for Lottery Instant Tickets, Game Designs and Marketing Services, for three years with the following companies:

GTECH Printing

10 Memorial Boulevard
Providence, RI

Pollard Banknote Limited

1499 Buffalo Place
Winnipeg, Manitoba, Canada

Scientific Games International, Inc

1500 Bluegrass Lakes Oarkway
Alpharetta, GA

The aggregate maximum obligation assumed under the three contracts, shall not exceed fifty-one million, two hundred thousand dollars (\$51,200,000.00).

The above vendors are the Lottery's current vendors as there are three major vendors in the industry that produce instant tickets. This bid was not only for printing of tickets but for game design and marketing support as well. There were volumes of research to review and the procurement team worked about 60 to 70 hours each on the task. Business and technical qualifications and oral presentations were required. The scores were then calculated. Counselor Egan also explained that protecting the integrity of the procurement process was very important. Counselor Egan also stated that each Instant Ticket vendor must certify the quality control procedures each uses to the Lottery's satisfaction and Lottery staff will inspect each vendor location to ensure the procedures are in place. The Treasurer stated that he felt a site visit was important to verify the certified procedures. Director Sternburg said there are high quality standards for instant tickets and that this award does not guarantee the vendors will receive Lottery business.

Treasurer Grossman wanted to express his appreciation and that of the Commission for the time put into the procurement process. Director Sternburg said that compared to previous years Scientific Games pricing was cheaper on average than the last contract. The instant games the Lottery selects are dependent on the cost of production of the game and how similar tickets have sold. The Lottery has 28 – 30 game releases per year. He also stated that there would be another rigorous rebidding in three years. Commissioner Boland asked why it would be in three years. There was a brief outline of the scores.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into contracts for Lottery Instant Tickets, Game Designs and Marketing services for three years with GTECH Printing, Pollard Banknote Limited and Scientific Games International; not to exceed fifty-one million, two hundred thousand dollars (\$51,200,000.00). Motion was made by Commissioner Benison and seconded by Commissioner Boland. Motion approved 5-0 at 11:21 a.m.

- 5.2 For the reasons set forth in the attached memorandum dated September 20, 2012, the Executive Director is authorized to enter into a three-year contract for the provisions of Advertising

Services in accordance with the attached memorandum with the following company:

Connelly Partners
Boston, MA

This award is made pursuant to a competitive bid process (RFR LOT #1216), in which five firms submitted proposals and Connelly Partners received the highest score. The maximum obligation for the first year of the contract with Connelly Partners shall not exceed five million dollars (\$5,000,000.00). The Commission will approve the maximum obligation for years two and three of the contract on an annual basis based on the fiscal year appropriation.

Treasurer Grossman explained that the Legislature approved a \$5 million budget and thanked Beth Bresnahan for her leadership in this RFR. For many years, the Lottery used the same advertising agency until recently when the agency wanted to discontinue the relationship. The Treasurer told the Commissioners that for every dollar you spend in advertising your return is \$2. There is an estimated profit of \$921 million for FY13, but with the additional \$3 million in advertising there is possibility to generate \$6 to \$7 million in profit. Treasurer Grossman felt that one year is appropriate and then Beth Bresnahan will evaluate the performance of Connelly Partners and decide if we should go out to bid or return to the Commission for approval of the next year. The firms were scored on marketing, advertising services, creative service, graphic design and account management.

There were five proposals, submitted but after evaluation one of the bidders was eliminated for not meeting the mandatory requirement. The remaining four bidders provided strong written submissions and were invited in for an oral presentation. The mandatory requirements for the presentation was an original media plan around holiday instant tickets. Connelly Partners scored the highest with a total of 1207 points out of possible 1504.

A discussion then occurred regarding the supplier diversity points and the overall program the Lottery follows which mirrors the program employed by OSD. The Treasurer asked the Lottery staff to review the supplier diversity program to ensure the goals of supplier and vendor diversity are being met. Treasurer Grossman asked that the Lottery think through the process looking at the model used for Treasury bids noting that the state/government model are a little different. Commissioner Boland agreed that this was a good plan. Counselor Tesler said that the Lottery is subject to the executive branch rules at times as compared to the Treasurer's office.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-year contract for Advertising Services with Connelly Partners. Commissioner Boland wanted to clarify that at the end of one year the Commission reconvene and evaluate based on new criteria. She suggested quarterly evaluations. Motion was made by Commissioner McMahan and seconded by Commissioner Benison. Motion approved 5-0 at 11:40 a.m.

Treasurer Grossman then informed the Commissioners that they would be going into Executive Session for the purpose of an update with respect to Double Platinum Payday. There will be no votes taken in the Executive Session and the Commission will reconvene solely to adjourn the meeting.

Treasurer Grossman said that he was looking for a motion to convene in executive session to allow the Commission to discuss the litigation position of the Commission because an open meeting may have a detrimental effect on the future litigation position of the Commission. This exception to the open meeting law is found in Massachusetts General Laws c. 30A, §21(a)(3).

The only votes that will be taken in executive session will be two votes to approve the minutes of previous executive session minutes. The Commission will reconvene in open session prior to adjourning and no further discussion will take place.

The motion was made by Commissioner Boland and seconded by Commissioner Benison at 11:42 a.m. A roll call vote was taken: Commissioner Boland: yes; Commissioner McMahon: yes; Counselor Gabriel: yes; Commissioner Benison: yes and Treasurer Grossman: yes. Motion approved 5-0.

The Commission reconvened at 11:44 a.m. with a motion to adjourn being made by Commissioner Benison and seconded by Counselor Gabriel. Motion approved 5-0.